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SUBJECT: CPI AND UNEMPLOYMENT DATA ENTER POLITICAL DEBATE

1. (U) SUMMARY: Domestic issues - purchasing power, inflation and unemployment - continue to dominate the French presidential campaign. One consequence is that public perceptions of being less well-off, and the confusing barrage of competing statistics, have caused some to question the validity of data released by the GOF through the National Statistical Agency INSEE, and to question INSEE's independence from the GOF. END SUMMARY

CPI Enters Debate on the Cost of Living

2. (U) According to INSEE, the French National Statistical Agency, inflation as measured by consumer prices averaged 1.9% from 2002 to 2006 and dropped to 1.5% in December 2006. Over the same period of time, household confidence surveys show that French consumers think inflation has been consistently higher than official measures, by up to 2 percentage points. One reason could be that consumers know how high prices jumped when France converted to euros in 2002, and have yet to see any fall in prices. According to a November 2006 TNT Sofres poll, 94 percent of the French still believe that the euro has "aggravated" price increases. Even when dollar-denominated oil prices dropped due to the euro appreciating against the dollar, consumers complained that they never saw a corresponding drop in the price of gasoline at the pump. In a recent report, INSEE analyzed the cost of living of the poorest and the wealthiest. According to the report, the inflation rate for the 10 percent poorest households was 0.11 percent higher than the average CPI over the last ten years. The 10 percent wealthiest consumers saw annual inflation smaller than the CPI by 0.09 percent.

3. (U) Consumers believe the French consumer price index (CPI) is not comprehensive, and that it unfairly undervalues the weight of some goods and services. Rents are often cited as an example. Confirming their perceptions, in 2004 the head of the hypermarket Leclerc, Edouard Leclerc, launched a debate in France on the effective purchasing power of consumers. In June 2004, then Finance Minister Nicolas Sarkozy created a price index for the supermarket sector ("grande distribution"). In September 2005, the current Finance Minister Thierry Breton introduced a "standard basket" ("chariot type") that updates price increases for several categories of goods and services on a weekly basis.

4. (U) In December 2006, the Socialist Party presidential candidate, Segolene Royal, denounced the CPI as "a public lie." Her main rival, Interior Minister and center-right UMP Party candidate Nicolas Sarkozy, subsequently sought to draw on the same public sentiment, acknowledging that "the usual index does not reflect reality." Not surprisingly, candidates have focused on the "purchasing power of workers" in their speeches. Sarkozy argues

that workers should be given the right to work longer hours to improve living standards. Royal has constantly made a reference to "the purchasing power of wage-earners" in her speeches. On February 5, the co-manager of Royal's campaign, Francois Rebsamen, said that Royal would propose CPI indices based on income levels. The socialist party has called for an 18 percent increase in the minimum wage (SMIC) to 1,500 euros as early as possible.

¶5. (U) To respond to the criticisms, INSEE announced a plan to put in place a personalized calculator on its website. The calculator will allow any consumer to calculate his or her personal price index by indicating the individualized components of his or her consumption (food, rent, gas, restaurant, vacation, etc.). According to commentators, "personal" inflation should outpace the CPI by 1 percent in 2006 for those who devote one third of incomes to housing rental costs.

Unemployment Data Also Perceived as Surreal

¶6. (U) Although the official unemployment rate declined by 1 percent to 8.6 percent in December 2006, critiques about unemployment data have been reaching a crescendo. The main critique is that the number of unemployed French workers is not 2.3 million (based on an ILO definition that allows international comparisons), but 4.4 million due to "invisible unemployment," which is in fact becoming more and more visible. According to independent critics such as the magazine Marianne which publishes the "Marianne barometer," and the ACDC ("Autres Chiffres du Chomage" which groups associations, researchers and unions), invisible unemployment includes part-time workers who desired full-time work (1.3 million in January), jobseekers pushed into early-retirement (458,000), job seekers in training (219,000), and jobseekers involved in government-subsidized contracts -"Contrats Emploi Solidarite and Contrats Borloo"- (265,500).

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¶7. (U) INSEE also initially announced it would postpone this year the benchmarking of unemployment figures, from March to September. Unions and some politicians accused the agency of yielding to political pressures in the run-up to elections, since the suspicion is that the 2007 labor survey would not be flattering to the current government. The head of the National Unemployment Agency, Jean-Pierre Revoil, characterized the postponement as "a bizarre and unprecedented situation." INSEE argued that it had postponed the labor survey due to serious statistical problems, including the percentage of non-respondents and sampling difficulties. INSEE later did an about-face and decided to proceed before the elections, after it gets advice from its oversight council ("Conseil National de l'Information Statistique - CNIS") in early March. But its reputation had already been damaged.

INSEE Independence Questioned

¶8. (U) As part of a tour of European statistical agencies, European experts from Eurostat and Belgian and Irish counterparts are conducting a peer review of INSEE to evaluate its independence in the face of "political interventions and other interferences external to the production and diffusion of public statistics." Experts will examine conditions in which INSEE applies the Code of good practices of European statistics, and will publish their conclusions in a few weeks. At the moment, INSEE operates independently, but remains affiliated with the Finance Ministry. New INSEE head for Statistical Coordination and International Relations, Philippe Cuneo, admitted "European experts think that the independence principle is not fully respected in France." Finance Ministry collaborators opined that the problem has already been mentioned several times, but "is not obvious to formulate explicitly all aspects of problems and their interrelationship," and the issue will be "naturally addressed after the publication of the European experts' report, by this government or the next."

Comment

¶9. (SBU) The French skepticism of government statistics, while stimulating a healthy campaign debate, will not help the GOF

implement the labor reforms necessary to reduce the unemployment rate below 8.0 percent and to help the economy grow. The next government will probably also have to give greater independence to INSEE.

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